

**ERIE COUNTY CLERKS OFFICE****County Clerk's Recording Page**Return To:

GIORGIO PANNELLA  
7301 MILESTRIP RD

ORCHARD PARK NY 14127

Party 1:

**DIOESE OF BUFFALO**

Party 2:

**PAN ENERGY CO INC**

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SCAR:

INDEX:

**Recording Fees:**

RECORDING	\$45.00
COE CO \$1 RET	1.00
COE STATE \$14.25 GEN	\$14.25
COE STATE \$4.75 RM	\$4.75
TP584	\$10.00

**Consideration Amount: \$1.00**

BASIC	\$0.00
SONYMA	\$0.00
ADDL	\$0.00
NFTA MT	\$0.00
TRANSFER	\$0.00
NFTA TT	\$0.00

**Total: \$75.00**

STATE OF NEW YORK  
ERIE COUNTY CLERK'S OFFICE

**WARNING - THIS SHEET CONSTITUTES THE CLERK'S ENDORSEMENT,  
REQUIRED BY SECTIONS 319&316-a (5) OF THE REAL PROPERTY LAW  
OF THE STATE OF NEW YORK. DO NOT DETACH. THIS IS NOT A BILL.**

Kathleen C. Hochul  
County Clerk

## OIL AND GAS LEASE

AGREEMENT, Made and entered into this 20th day of SEPTEMBER A.D. 2002 by and between Dorese of Buffalo, 10893 Sisson Highway North Collins, NY 14111 hereinafter called the LESSOR, and PAN ENERGY CO., Inc., 7301 Mile Strip Rd. Orchard Park, NY 14127 hereinafter called the LESSEE:

1. That the Lessor, for and in consideration of the sum of One Dollar (\$1.00) in hand paid, and of the covenants and agreements hereinafter contained to be performed by Lessee, has this day granted and leased and hereby grants and conveys unto Lessee and the oil and gas under the following described land, and leases and lets unto Lessee for the purpose and with the exclusive right to explore and operate for and produce oil and gas, lay and maintain pipelines, build tanks and roads, and build other structures thereon necessary to produce such substances.

All of that certain tract of land situated in the Town of N. Collins, County of Erie, State of New York, and bounded substantially by the following lands:

NORTH Lots

EAST: Sisson highway, and North Collins Fire Department

SOUTH: Thiel

WEST: Thiel

containing 18 acres. More or less.

2. Lessee shall be responsible for any damage to growing crops, fences and buildings which may result from said operations. No well shall be drilled within 200 feet of any house or barn now on said premises. Lessor agrees that Lessee may enter upon leased premises, search for and clean out any abandoned oil or gas well, and such well shall then be considered to have been drilled under the terms of this lease. The same may be properly plugged and abandoned again or refitted and utilized by Lessee for the production of gas or oil. Lessee shall have the right to use free of cost, gas, oil, and water found on said land (except from Lessor=s wells) necessary for the operations described herein.

3. Lessor hereby covenants that he is seized of an indefeasible fee simple estate in the lands herein before described, subject to existing easements, together with all the oil and gas underlying the same, and that he will forever warrant and defend the lease hold estate hereby demised unto the Lessee against the lawful claims and demands of all persons whomsoever, and that Lessee shall have the exclusive, full, free and quiet possession of said described premises for the purposes and during the term herein set forth.

4. Lessee is hereby granted the right to pool and unitize any stratum or strata under all or any part of the land described above with any other lease or leases, land or lands, mineral estates, or any of them, whether owned by the Lessee or others, so as to create one or more drilling or production units. Such drilling or production units shall not exceed 240 acres in extent if gas or condensate is produced and 40 acres if oil is produced and shall conform to the rules and regulations of any lawful government authority having jurisdiction in the premises. In the event said premises, together with others in the area, had been jointly leased by various Lessors to the Lessee as a single undivided tract and in such event Lessor agrees to accept, in lieu of the royalty hereinbefore recited, such portion of the one-eighth (1/8) of the oil or gas marketed from the unitized area as his acreage included therein bears to the total acreage of the unitized area. The Lessee may give notice to the lessor of such consolidation by mail to the above address or by filing a deceleration of record describing the properties so consolidate or unitized.

5. It is agreed that this lease shall remain in force for the term of 5 (five) years from the above date and as long thereafter as the above described land, or any portion thereof is operated by the Lessee in the production of oil or gas, or as long as this lease is extended by any other provisions contained herein.

6. In consideration of the premises the Lessee covenants and agrees to pay the following royalties:

(OIL) : To deliver to the credit of the Lessor, his heirs or assigns, free of cost, in pipeline to which Lessee may connect its wells, a royalty of the equal one eighth (1/8) part at its option may pay to the Lessor for such one eighth royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipeline, or into storage tank.

(GAS) : To make the following payments of royalty for or on account of wells producing gas from subsurface strata, namely: To pay a royalty equal to one eighth (1/8) of the value of all gas (except storage gas) produced, saved and marketed, calculated at the price paid at the connecting point by the pipeline operator.

The time and method of marketing production from any well on the leased premises and the amount thereof that shall be used or marketed within any period of time shall be entirely within the discretion of the Lessee, and this lease shall not lapse pending the marketing or during any interruption of marketing of such production.

7. If operations for drilling are not commenced on said land on or before 9 months from this date, the lease shall terminate as to both parties, unless on or before such date Lessee pay or tender to Lessor, or to the credit of Lessor, a delay rental at the rate of \$ 5.00 per acre per year in advance beginning from this date which shall cover the privilege of deferring commencement of drilling operations for a period of 12 months.

8. If at the expiration of the primary term hereof, there is no production of oil or gas on the leased lands, but Lessee is engaged in operations for drilling, reworking, plugging back, or deepening a well thereon, this lease shall remain in force and its term shall continue for so long as such operations, or additional drilling, reworking, plugging back, or deepening operations commenced while such operations are in progress or within thirty (30) days after the cessation thereof, are prosecuted, and if production continues. If, after the expiration of the primary term of this lease, production on the leased premises shall cease, this lease shall not terminate, provided that Lessee commences operations from drilling, reworking, plugging back, or deepening a well with sixty (60) days from such cessation, and this lease shall remain in force during the prosecution of such operations or additional drilling, reworking, plugging back, or deepening operations commenced while such operations are in progress or within thirty (30) days after the cessation thereof, and, if production results therefrom, then until it is marketed and so long as production continues.

9. LESSOR hereby excepts and reserves from any one gas-producing well on the premises completed and operated by Lessee, for so long as gas is produced from such well, such quantity of gas as Lessor requires for his own domestic use in one dwelling located on the premises, but not exceeding three hundred thousand (300,000) cubic feet of gas per year. Lessor may, at Lessor's expense and upon such terms, conditions and rules as Lessee may establish, secure such reserved gas by a service line laid and connected to such well. Lessor shall use said reserved gas in safe and proper and properly maintained, regulators, meter, relief valves, drip tanks, valves, pipes and appliances, assumes the risk for obtaining reserved gas from such well, agrees that Lessee shall have the right to abandon such well at any time, and agrees that Lessee shall not be in any way liable for interruption of or insufficient supply or quality of such reserved gas. Lessee shall have no obligation to furnish Lessor with gas in excess of the quantity reserved. Nevertheless, if Lessor in any year consumes gas in the excess of the quantity reserved hereunder, Lessee, at its election, may deduct the value thereof from rentals, royalties or other payments due Lessor, or Lessee may bill Lessor the value thereof, in which case Lessor shall pay said bill promptly. For purposes of this paragraph, the value of such excess consumption shall be derived by using the preceding year's average monthly wellhead price plus any service charges incurred. If Lessor conveys a portion of or interest in the premises, Lessor may convey his entitlement to reserved gas hereunder as part of such conveyance, but may not subdivide such entitlement. If the premises are pooled or unitized with other lands, the reserved gas herein referred to shall be used only by the Lessor upon whose property the well is located.

Any Lessor, eligible for free gas, is also entitled to the cash equivalent of any gas 300,000 cubic feet or less that is not consumed on the premises, as long as the Lessee has marketed that amount of gas from said well within the calendar year. For purposes of this paragraph, the value of such gas shall be derived by using the preceding year's average monthly wellhead price less any service charges incurred.

10. Lessee shall at any time, upon payment of all monies due hereunder up to such time, have the right to surrender this Lease as to all or part of the premises, and shall thereupon be released and discharged from all payments, obligations, terms, conditions and covenants contained herein, whereupon this Lease shall be null and void as to the entire premises or the part thereof as to which this surrender was made, and rental and royalty payments shall cease or be reduced accordingly. Notwithstanding the above, Lessee shall still have the right to continue to use any pipeline rights of way herein granted upon a single payment to Lessor of two dollars (\$2) per rod.

11. Lessee, at any time, and from time to time, may surrender this lease as to all or any part or parts of leased premises by tendering an appropriate instrument of surrender to the Lessor, and thereupon this lease, and the rights and obligations of the parties hereunder, shall terminate as to the part or parts so surrendered. Upon each surrender as to any part or parts of leased premises the rental specified above shall be proportionately reduced on an acreage basis, and Lessee shall have reasonable easements for then existing pipeline or roadways on the lands surrendered for the purpose of continuing operations on the lands retained. Lessee shall have the right at any time during or after the expiration of this lease to remove all machinery, fixtures, building or other structures placed on said premises, including the right to pull and remove all casing.

12. Said Lessee shall not be required in any event to increase the delay rental or the gas or oil royalty payments hereunder by reason of any royalty or interest in said oil or gas that may have been heretofore sold, reserved or conveyed by said Lessor or by his predecessors in title or otherwise; and if the Lessor does not have title to all the oil and gas in the leased premises there shall be refunded such part of all payments made by the Lessee hereunder as shall be proportionate to the outstanding title, and all payments and royalties thereafter to be made shall be reduced in the same proportion.

13. In case of notice of, or an adverse claim to the premises, affecting all or any part of the rentals, or royalties, Lessee may withhold payment or delivery of the same until their ownership is determined by compromise, or by final decree of a court of competent jurisdiction, and to this end Lessee may file a petition for interpleader.

14. Lessor and Lessee will mutually agree on well sites, pipeline location and access road. Such approval shall not be unreasonably withheld.

15. All terms, conditions, limitations and covenants between the parties hereto shall extend to their respective heirs, successors, personal representatives and assigns.

16. This lease shall not be terminated, in whole or in part, nor shall Lessee be held liable for damages for failure to comply with the express or implied covenants hereof, if compliance therewith is prevented by, or if such failure is the result of interference by an act of God, strikes, riots, wars, acts of terrorism, court actions, any Federal or State laws, executive orders, rules or regulations, whether valid or invalid, and similar factors beyond Lessee's control. During any period and for ninety (90) days thereafter that Lessee is unable to comply with the obligations herein or drill, produce and market any products from the leased premises by reason of any of the above recited causes, this lease shall remain in full force and effect; however, Lessee will resume paying delay rentals on the first anniversary of this lease occurring ninety (90) days after initial interference from one of the above causes.

17. In the event that Field Service Inc. offers a well located on said premises for sale, the Lessor will have, at his option, the right to purchase the well. The sale price to be determined by the last 30 (thirty) months in which gas was sold or marketed or a price equal to the highest bid, whichever is greater. All existing pipelines, right of ways and easements will remain the property of Field Service Inc. and/or the new field owner, and remain in force until all wells no longer require said pipelines, easements and right of ways.

**IF THIS LEASE BECOMES FORFEITED, TERMINATED, OR EXPIRES, THE LESSEE, OR IF THE LEASE HAS BEEN ASSIGNED, THE ASSIGNEE IS REQUIRED TO PROVIDE A DOCUMENT CANCELING THE LEASE AS OF THE RECORD, AT NO COST TO THE CURRENT LANDOWNER. IF THE LESSEE OR ASSIGNEE FAILS TO CANCEL THE LEASE, THE CURRENT LANDOWNER MAY COMPEL A CANCELLATION PURSUANT TO SECTION 15-304 OF THE GENERAL OBLIGATION LAW.**

**THIS IS A LEASE OF OIL AND GAS RIGHTS, NOT A SALE, CONTAINING TERMS THAT MAY BE NEGOTIATED BY YOU. YOU HAVE THE RIGHT TO CANCEL THIS LEASE WITHIN THREE BUSINESS DAYS AFTER EXECUTION OF THE LEASE BY NOTIFYING THE LESSEE THAT YOU HAVE CANCELED THIS CONTRACT. IN ORDER TO CANCEL THIS LEASE, YOU MUST EXECUTE A NOTICE OF CANCELLATION IN THE FORM PROVIDED BELOW, MAIL IT TO THE LESSEE AND REFUND ALL AMOUNTS PAID TO YOU BY THE LESSEE WITHIN THE THREE-DAY CANCELLATION PERIOD. THE MAILING MUST BE POSTMARKED WITHIN THE THREE-DAY CANCELLATION PERIOD TO BE EFFECTIVE.**

#### **NOTICE OF CANCELLATION**

**I/WE HEREBY CANCEL THIS LEASE.**

**DATED:**

**SIGNATURE(S):**

**THE PERSON PRESENTING THIS LEASE TO YOU IS (    ) NOT (X) A MEMBER OF NORTHERN APPALACHIAN LANDMAN ASSOCIATION AND THEREFORE IS SUBJECT TO A CODE OF CONDUCT. IF THE PERSON PRESENTING THIS LEASE TO YOU IS SUBJECT TO A CODE OF CONDUCT, A COPY OF THE CODE OF CONDUCT MUST BE PRESENTED TO YOU WITH THIS LEASE. IF APPLICABLE, THE CODE OF CONDUCT PROVIDES A DISPUTE RESOLUTION MECHANISM FOR ANY DISPUTE THAT YOU MAY HAVE REGARDING THE MANNER BY WHICH THIS LEASE WAS PRESENTED TO YOU. IF YOU HAVE ANY SUCH DISPUTE, YOU MAY INVOKE THE DISPUTE RESOLUTION MECHANISM OF THE CODE OF CONDUCT BY CONTACTING THE PERSON OR PERSONS DESIGNATED IN THE CODE OF CONDUCT. THE FAILURE OF THE LESSEE TO PAY ANY ROYALTIES TO YOU AS REQUIRED UNDER THE TERMS OF THE LEASE FOR A PERIOD OF FOUR CONSECUTIVE MONTHS OR MORE SHALL BE A DEFAULT UNLESS OTHERWISE PROVIDED BY LAW, AND WILL RESULT IN CANCELLATION OF THE LEASE APPLICABLE TO THE TARGET FORMATION OF THE WELL WITHIN THE SPACING UNIT, FOLLOWING WRITTEN NOTIFICATION TO THE LESSEE OF YOUR INTENT TO CANCEL AND SIXTY DAYS FOR THE LESSEE TO CURE THE DEFAULT. IF THE LESSEE HAS A BONA FIDE DISPUTE REGARDING THE GROUNDS FOR CANCELLATION, SUCH DISPUTE AND THE REASONS THEREFOR MUST BE PROVIDED TO YOU IN WRITING OR THE DEFAULT MUST BE CURED WITHIN SUCH SIXTY DAY PERIOD OTHERWISE THE LEASE SHALL BE CANCELED.**

Witness:

Edward U. Kniee (seal)  
John P. Kniee (seal)  
John P. Kniee (seal)  
John P. Kniee (seal)

UNIFORM CERTIFICATE OF ACKNOWLEDGMENT

STATE OF NEW YORK )  
COUNTY OF Erie ) ss.

On the 3rd day of September in the year 2008, before me, the undersigned, a notary public in and for said state, personally appeared Edward U. Kniee Personally known to me or proved to me on the basis of satisfactory evidence to be the individual (s) whose name (s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity (ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual (s) acted, executed the instrument.

Mildred C. Holbel

MILDRED C. HOLBEL  
Notary Public, State of New York  
Reg. # 011405008235  
Qualified in Erie County  
My Commission Expires on October 28, 2010  
10/26/10

UNIFORM CERTIFICATE OF ACKNOWLEDGMENT

STATE OF NEW YORK )  
COUNTY OF Erie ) ss.

On the 2nd day of Mar in the year 2010, before me, the undersigned, a notary public in and for said state, personally appeared Giorgio Pannella, personally known to me, did depose and say that he resides in 7301 Mile Strip Rd. Orchard Park, NY 14127, that he is the PRESIDENT, of PAN ENERGY CO., INC., personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name (s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity (ies), and that by his/her/their signature (s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Darlene A. Glaser

DARLENE A. GLASER  
Notary Public, State of New York  
My Commission Expires Aug. 31, 2010

UNIFORM CERTIFICATE OF ACKNOWLEDGMENT

For Use by Subscribing Witness Only

STATE OF NEW YORK )  
COUNTY OF ERIE )

On the day--- of,----- in the year 2007, before me, the undersigned, a notary public in and for said state, personally appeared,----- the subscribing witness to the foregoing instrument, with whom I am personally acquainted, who, being by me duly sworn, did depose and say that they reside(s) in-----; that he/she/they know (s)-----, to be the individual(s) described in and who executed the foregoing instrument; that said subscribing witnesses were present and saw said----- execute the same; and that said witness at the same time subscribed their names as a witness thereto.